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COMMITTEE ON GOVERNMENT REFORM

ENRON ALL-EMPLOYEE MEETING

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This transcript is the original transcript from Miller Reporting, except for the following clarifications and corrections made by the minority staff of the Committee on Government Reform: (1) pagination was added; (2) speaker identities were added where omitted or incorrectly identified; (3) misspellings of employee and project names were corrected; and (4) miscellaneous errors were corrected. Any corrections of omissions, misspellings, or errors are designated in **bold** type.

P R O C E E D I N G S

MR. LAY: Good morning.

[Chorus of good mornings.]

MR. LAY: Good morning.

[Chorus of good mornings.]

MR. LAY: I'm glad a number of you came to our all-employee meeting today, and as we started particularly with our employee meeting in London back in February, this is a true worldwide Enron employee meeting.

We are connected in, of course, video conferencing with a number of locations--Buenos Aires, Chicago, Costa Mesa, Denver, San Juan, San Ramon, Sao Paulo. And at those locations, for those of you there, I'm told, at least, that you're getting a good video conference of the meeting here, but of course we apparently cannot communicate verbally with you, as far as taking your questions, but they are setting up methods to get other questions to us.

We have a number of other locations tied in, of course, through our IP/TV webcast to employees in the Enron building, for those that couldn't make it over here, as well

as employees in Omaha, Portland, New York, Greenwich. Greenwich is the headquarters of our new business, the new power company, which we'll talk a little bit about this morning, Toronto, London, Stockholm, Frankfurt, Amsterdam and Madrid, so quite a combination of cities hooked into this session, and we are delighted that all of you would take a few minutes to spend with us so that we can update you, as well as take--take a lot of questions that I know are on the minds of several.

Now let me say there are still a few seats, particularly down towards the front on the right-hand side, probably also on the outer areas there. There are people still coming in, but we clearly have a full house.

For those of you that may not have been here that long, these meetings usually run about an hour and a half. We try to limit them to that, as a matter of fact, just so you'll know. If you need to get up and slip out before the hour and a half is up or it gets too boring or whatever, why, just go for it.

[Laughter.]

MR. LAY: Okay. This morning we're going to talk about a number of things. We're going to talk about the financial performance of the company, some of the recent developments, some very exciting recent developments to continue to set us up for really strong future growth, the operating highlights and global strategy, and then some recent things, both internally and externally, that we think we'd like to share with you, in case you haven't seen it. And, again, today Jeff, Joe, and I will kind of split up the presentation, and also, of course, share in answering the various questions.

For the second quarter this year, we again had an outstanding quarter, as most of you know. Our revenues were up about 75 percent, net income up about 30 percent, earnings per share up about 26 percent. By every measure, and of course even more so if we start looking at some of the physical volumes and some of the underlying activity in the companies, which we will do this morning, it was a great, a great quarter for Enron.

And, of course, now we've just completed our third

quarter, and we'll be announcing those results in about two weeks. Again, we had a great third quarter. Obviously, all of the final numbers aren't in, but everything we're looking at would indicate that it, again, will be another stellar quarter performance for the company.

What happened there? What am I doing, Mary? It's going wild.

[Laughter.]

MR. LAY: All right. Well, welcome to the Enron employee meeting.

[Laughter.]

MR. LAY: We're going to try here again. They better not fix me too much here.

[Laughter.]

MR. LAY: Okay. Here we are. Do they have it controlled back there now, since it seems to be going both forward and backward when I push it the same way?

But each of the businesses had a good quarter. Again, the transportation distribution business, which is our various extensive pipeline group, as well as Portland

General Electric. Again, their income, before interest and taxes, is up about 9 percent, well in line with what we expect this year.

Wholesale Energy, of course, which has become our largest single business worldwide and our strongest growing business on a profit basis, up over 23 percent. Again, \$437 million of income before interest and taxes in that business in the second quarter. And just consistently, quarter after quarter, year after year, that business is growing at a tremendous rate, and we'll talk about that a little bit later too.

Retail Energy, our new, basically, energy outsourcing business. And again strong growth there, going from about a \$26-million EBIT loss second quarter last year to a \$24-million EBIT income this year. So, increasingly, that business is dropping a lot of the revenue or a lot of the business value to the bottom line. And, of course, we're seeing an acceleration in that net income, and I think we'll see further acceleration over the next few years.

And broadband was pretty much as expected, about

an \$8-million loss, even after selling some dark fiber, but well on plan. Again, we expect to lose about \$60 million of EBIT there this year getting that business going, but as you're going to hear a little later, particularly from Jeff, we're right on track in that business, and it's very exciting what, what's been happening the last few quarters.

Shall I try one more time here? Oh, that works, and I'm sure glad we didn't miss that slide.

[Laughter.]

MR. LAY: This is probably one of my most favorite slides, but it does--but it does show how the performance for our shareholders has been over the last 10-plus years.

Starting early in 1990 and going through September of this year, as you can see in that upper left-hand quarter, Enron Corp shareholders have had over a 1,400-percent or over 15-fold, if you want to put it that way, increase in their investment over that period of time. Obviously, well over three times what the average has been for the S&P 500. They're in a really strong bull market, the S&P 500, and over three times what the average for the

pipeline group is, and of course much stronger than the utility average or the ENP[?] **[NP]** average. So, certainly, Wall Street is recognizing the performance that we're having.

And, of course, even if we look at this year, just take the one-year snapshot. Of course, we had an early move in January and February, stabilized somewhat and then a move again over the last couple of months. We started off the year at \$44 a share, and of course we're right at, of course, we've been as high as about \$90, we have been as high as \$90, and of course right now we're at about \$86.

So, as you can see by the lines for the Nasdaq and the S&P 500, in a year when, in fact, the basic market has been just about flat, Enron's stock price has just about doubled, and obviously again reflecting the kind of year that we're having.

It went backwards on me again, Mary.

And, of course, that's all reflected in our PE ratio, about a 62 PE ratio versus 24/25 for the S&P 500, about 26 for the energy peer group. And, again, just

reflecting the expectations on Wall Street that we will continue to have very strong earnings growth, and let me say those of us in management have every reason to believe that those expectations will not be disappointed. So, again, a good performance leading to good results.

A few recent developments which, again, are very exciting for the company. Most of these you very much know about, certainly, the Blockbuster deal, but this is truly a great transaction for Enron broadband services. It is a 20-year exclusive deal with Blockbuster.

Blockbuster will provide the content, the movie. We will be the wholesale providers or deliverers of those videos to the last-mile people, which are listed there on the right--the Verizons, the Qwests, the SBCs, the Teluses, the Covads, the Reflexes.

But probably most importantly--and it's a big contract, it's about a billion-dollar contract, and we really had to constrain it somewhat to keep it to that level. It's really probably a several-billion contract--but it did confirm, I think in the eyes of many, the fact that

we do have superior technology in broadband services.

I mean, here you have Blockbuster really betting their future on our technology, and exclusively on our technology. And, of course, you've got, over a shorter period of time, you've got the Auerbachs [ph], Covad and others doing the same thing. So it got everybody's attention.

We expect to roll out this service in December to a couple of major cities, mainly test markets, but it is our intent throughout the year 2001 that we roll this out aggressively across the country, and this, indeed, could be a very, very large and very profitable business very quickly.

The global markets group. This is a new business unit that we created here not too long ago. Mark Frevert will act as chairman. Mike McConnell would act as CEO of this business. We're trying to bring together all of our global fuels business, our crude products, coal, currency, equities, interest rate, agriculture trading, et cetera, bring it all together into one profit center and give it new

focus, give it new priority.

This has been a business that we've had for a long time, but indeed it probably has not realized anywhere close to its potential. We think with a new focus and new leadership this, again, could become a major growth business for Enron.

Of course, the whole industrial markets effort. We're, in fact, we are taking our Enron model, the one that we've developed, and of course we have perfected and performed with, and natural gas, electricity, and of course in a few other areas over the last really 12/15 years now and to take that into other industries that are not nearly as advanced and the markets are not nearly as efficient as the natural gas and electricity markets are.

So we're looking at markets again like pulp and paper, like lumber, steel, metals, and of course the various things that, in fact, seem to fit our model very well, where we can bring a lot of ability to make markets, standardized contracts, handle logistics to really turn this business into a more sophisticated market system, a much more

sophisticated business, and of course in the process make a lot of money out of it.

I mentioned a new power company, and this is really timely, but when we pulled out of the California residential market about three-plus years ago, we continued to look at this market and just see if there wasn't a way that we could ultimately get into the market and make money out of it. This is a big market. I mean, this is a \$120-billion national market, and thus far nobody else has been able to break the code on this market.

Obviously, we're doing a lot of business in the large commercial light manufacturing business with Enron Energy Services, but this market is still largely untouched.

We think now we have a winning strategy, and we have very strong strategic partners. With America Online, and again that's an exclusive arrangement, it's for selling any residential energy--energy through AOL.

IBM has given us the customer billing and services, and they intend to make this a major worldwide business, and they're pricing it aggressively to make sure

that they were our partner.

We think with the two of them, some other financial partners, indeed, and then focusing on the markets that are really set up best, like Pennsylvania and New Jersey, we can begin creating a nationwide residential small commercial business that could be a very, very large business over time.

The road show on that is still underway, but that will likely get priced in the next few days. It's been highly successful, as far as the road show, a lot of interest, very strong interest by a lot of big funds. And I think, again, this will be a very exciting business for Enron as we move forward.

And now we'll turn to operating highlights and global strategy, and I'll let Jeff take that.

MR. SKILLING: Okay. What I was going to do is cover the operating performance of the various businesses and talk some about the overall strategy. Actually, I don't have any material in here about the strategy. We're just going to talk to operating performance, but let me use this

page or this chart to talk a little bit about strategy before we go into the operating highlights.

We now group our businesses into five segments. The first one is the transportation and distribution segment. That's our natural gas transportation network in North America and Portland General. As you know, we're in the process of selling Portland General, and that should be completed, we believe, either late this year or early next year, probably most likely January of this year.

Our wholesale energy business is all of our activities in the wholesale markets in North America, Europe, South America, Asia, Africa, and this is selling products primarily for resale by other customers. This has been really the locomotive of growth and profitability of the company over the last 10 years, and I'll talk more about the performance so far this year. The performance so far this year in the wholesale business has been absolutely stunning.

We've set up, as Ken mentioned, a new business called Enron Network. Enron Network will give us additional

growth opportunities related to the things that we've developed in our wholesale markets. So we're going to take the business model that we developed in the natural gas and electricity market and look for new marketplaces to apply that model, which will give us additional growth opportunities for that skill set that we developed.

The next business is retail energy. That's Enron Energy Services. I'll show you some numbers on this. They've had a just phenomenal year so far this year. The growth rates have been stunning, just as in the wholesale business, and I think as the marketplace gets more and more comfortable with the growth opportunities there in North America and internationally, I think we're going to see some additional upside in the stock price from the performance of retail energy.

And then, finally, our broadband services. The broadband services business, as you know, is focusing primarily on very large bandwidth application businesses. That market is in its infancy today. We expect it to grow very, very quickly, and I think in three to four years this

will become of a size and impact on Enron that I think it's going to have a significant impact on our growth rate and profitability two or three years down the road.

So those are the businesses. You know, as I look at all of those businesses, I think we're in great shape. In the transportation and distribution business, Stan has just changed the name so that it has, it emphasizes the services component of what we're doing in the pipeline business, and I think that's going to be more and more important over time as a new growth opportunity in transportation and distribution.

In the wholesale energy markets, North America and Europe, we're probably going to be targeting a 20- to 25-percent market share. We're attacking the Japanese market, South American markets very aggressively. If we can maintain or build a 25-percent market share worldwide, this business by itself could have revenues of over a quarter of a trillion dollars a year. So very significant growth opportunities in the wholesale energy business.

The networks business, between metals, pulp and

paper, lumber, steel and some of the areas that we are already focusing on, they have worldwide markets in excess of a trillion dollars a year. If we get a 5- or 10-percent market share of that business, that could become as large as Enron is today just from those activities that we have underway in Enron network.

Retail energy business, as Ken mentioned, just enormous. We now participate, really, at every level of retail energy. We've recently moved the industrial, large industrial markets down into EES from North America. We have been focusing on the large commercial and light industrial market share, and then with the new power company, we're attacking the residential market.

So we have a product offering at the residential, commercial, and industrial levels in North America, and we're extending that now into Europe and South America. So the growth potential here is, this, as I've said before, could become our biggest business five or six years from now. This is an enormous market opportunity for us.

And then the broadband services business, as we

said, if we see the kind of growth we expect in the demand for bandwidth, this business could be as big as our gas and electric business five or ten years from now. So big, big growth opportunities, and in each of our markets we're in good shape.

Let me start, first, with transportation and distribution. As I mentioned, Stan just recently, and the pipeline group recently changed their name to Enron Transportation Services Company, and the name was changed really to emphasize the focus on intellectual capital, one of the things we talk about all across Enron, but it's a focus, additional focus in the transportation group to find service activities that we can layer on top of the transportation services that we're providing our customers.

The traditional business is doing great, though. We continue to extend and expand our pipeline. FGT expansions are underway with a 900-million-a-day expansion of new capacity that will be added over the next three years. Transwestern completed a capacity expansion of 15 percent in May. And we averaged 8.8 Bcf a day of throughput

on the system in the second quarter of the year 2000.

The little box on the left side re-emphasizes the Portland General sale. We believe we're on schedule for closing by the end of this year. So that will give us capital that we're freeing up from that transaction to redeploy across some of our faster growth businesses in the company.

Wholesale, as I mentioned, just an awesome performance so far this year. Last quarter physical volumes were up 41 percent. Now put that into perspective. The natural gas and electricity businesses in North America and Europe may be growing at a 2- to 3-percent annual rate. We grew it 41 percent in physical volume. As you know, prices were also up, so our sales numbers second quarter were actually up 71 percent quarter-over-quarter, year 2000 over 1999.

Our net income, before interest and taxes, up 27 percent in the wholesale business second quarter. This just continues, as Ken says, a long string of performance. We've been averaging over 35-percent growth in net income from the

wholesale business over the last decade, so a very, very fast-growing business for us, and we have a strong market position in every single market that we compete in, in our wholesale business.

It's a very complex service offering that involves many different products, but they all tie together and really key off or leverage off of our strength in natural gas and power.

Let me show you a couple of statistics I just found very interesting for the quarter. This is in North America. The chart just shows our infrastructure in North America. As we said before, we've developed the most flexible delivery network for natural gas and electricity that anyone has on the continent, period. And that's showing up now in our ability to move enormous volumes to market very quickly.

The natural gas business, the chart on the upper left-hand side of this page, shows that we were up in North America 65 percent in physical volume. In the United States, actually, we were up 97 percent physical volume

second quarter of 2000 over the second quarter of 1999.

Canada was up a paltry 30-something percent, but it averaged out to 65 percent. I mean, these numbers are stunning. These are absolutely stunning.

The reason that the stock prices reacted in the last couple of months, I think, is that people are surprised by these numbers. We added more sales of natural gas in the second quarter of this year versus the second quarter of last year than our next-biggest competitor has overall. We added more than our next-biggest competitor has overall in the last year.

The power business continues to grow at 25 percent. Let me show you some numbers out of Europe. These are also stunning numbers. We are now getting to a size in physical volumes in Europe that it really is starting to have an impact on our overall numbers, but our U.K. volumes more than doubled, our Nordic volumes more than doubled, and our continental volumes were up by a factor of 13, 13 times growth 2000 over 1999.

If you add all of those together, it's about 18.3

Bcf a day of throughput. That's more volume than Enron sold three years ago. So, in Europe alone, we're doing more volume today than we sold in Enron overall three years ago. So just very, very strong growth in Europe.

One of the factors that caused this is Enron Online. We've had a very successful introduction of Enron Online. We've now done 293,000 transactions, for a growth transaction value, the last numbers I saw, actually, were over \$150 billion--that's billion, not million--\$150 billion. This makes our website probably larger than anyone else's in the world by a factor of ten, in terms of transaction volume. So, I mean, just really significant, significant performance.

And we continue to grow. This chart shows daily volumes on Enron Online. The day before yesterday, I think it was--I don't know if Louise is here--the day before yesterday we did 3,192 transactions. So we reached a new peak two days ago, and so we're going to have to change the scale on this chart because it doesn't go up that high--

[Laughter.]

MR. SKILLING: But continued strong growth on Enron Online, as this becomes accepted by many of our customers as a convenient way to do business. But anyway, just, just stunning performance in the wholesale business.

Let me talk for a couple of minutes about the Enron Network just to introduce this. This is a new area. You will be hearing more about it as time goes on, but we're providing an additional growth platform for the skills that we created in the natural gas and electric business in the wholesale market, but we can take those skills to other industries.

Many industries exist that sell commodity products through legacy distribution channels. The way we've redefined the distribution of gas and electricity we think will spread to other industries because it's more efficient than having these legacy complex, expensive distribution channels.

The channels often consist of complex sales forces, long-term relationships with little price transparency, enormous inefficiencies in the pricing of

commodity products. We think the Internet, plus our business model and systems that we can provide, offer a unique opportunity to have immediate and inexpensive access to customer bases in industries we don't currently compete in. So we're going to take a shot at this and see if it's possible to build some of these businesses in some areas outside of our traditional commodities.

We're going to use our proven Enron Online platform and concept as an accelerator for growth, obviously, leveraging off of our proven skills and logistics risk management, back-office capabilities to develop highly structured, high-value products for the customers, and we're going to move quickly, and we're going to do it in a way that minimizes the impact on Enron's balance sheet.

We are going to be bringing in partners and typically people who may have had operations in some of these businesses before to help us leverage our capital so that we're putting in less capital per unit of revenue and profit growth for the company.

Just bringing these skills to the table, I won't

spend a whole lot of time on that. I won't tell you--I won't spend a lot of time on the target markets and approaches except to look at the bottom of this chart, which talks about the various places that we're looking right now.

We bought MG Metal, so we're well on our way to being one of the largest players in the metals market. The pulp and paper business, on the financial side, financial risk-management products, we're now the largest player in that industry in the world. We're looking at steel, chemicals.

The U.K. office is doing a lot to develop some new credit and finance products that will be offered on Enron Online there, too. Some very, very interesting products. Enron Online has done something else for us. It allows us to experiment cheaper. If we come up with a new idea, we can stick it out on Enron Online and see if customers like it, which gives us quick feedback, and so we're trying a bunch of new credit products over in the U.K. And I think, I think we're going to find some tremendous interest in those.

Data storage. In the same way the bandwidth is being commoditized, it's our belief that data storage will be commoditized over time and then maybe a role for Enron to make markets in data storage, the same way we make markets in bandwidth. The whole settlements and logistics process, back-office activities are big opportunities to create markets and businesses there.

We're putting our money where our mouth is. We've made two acquisitions this year. MG PLC, which is a metals merchant company in the U.K., they have now moved into the London office as of I think two weeks ago. Unfortunately, the office is now full. We were expecting we'd have a little expansion space in the U.K., but we are now full in the U.K., which is going to cause a little bit of the Houston problem.

[Laughter.]

MR. SKILLING: We're going to go to bunk desks in London also now. I've heard on the trading floor now they're just giving people chairs and saying, "If there's an empty space, just roll the chair into the empty space."

[Laughter.]

MR. SKILLING: Hopefully, the building will get done on time.

We, also, for pulp and paper, purchased a company called Garden State Paper, which is a newsprint manufacturer which will give us access to physical newsprint which we think will help us get or transition from the financial market for pulp and paper into the physical market.

In pulp and paper, we actually brought up a new website. It's very similar to Enron Online. It just has a different name. It's called quickpaper.com. You can call it up, if you're interested, and take a look at it, but it's offering the same sorts of markets, real-time markets for pulp and paper products that we offer in gas, electricity, and metals on Enron Online, a little more focused on the pulp and paper business, but it gives you a sense of the sort of things we can do. We can very quickly roll out new products in new markets. So that's Enron Network. You'll be hearing more about that over the next couple of years.

The retail energy business, one of my favorite

charts. You know, we caught a lot of grief from the analyst community when we started EES in the early days because we were losing money, and I can understand that. That's not a good thing to do, but I'll tell you what, we have created a heck of a business here, and we're starting to get credit for it in the financial markets.

This chart just shows some performance the first half of the last couple of years, just to show you the kind of growth rate we're experiencing in EES. The first half of 1997, which doesn't show up here, we did zero contracts in this business. We did \$1.4 billion in '98, \$3.4 billion the first half of '99, and \$7.5 billion the first half of '00. I've seen the initial statistics of the third quarter, and they're good. The market is going to like the numbers for the third quarter.

In terms of revenues, we're starting to see that ramp-up in revenues now. These contracts turn into revenue streams for the company. The first half of this year, \$1.5 billion of revenue. So we were at a \$3 billion run rate in this business for a business that didn't exist three years

ago at Enron. So just great performance.

And most important, we've turned the corner. We told the marketplace we'd go earnings positive fourth quarter of last year. We did, and we have turned that corner. Let me show you, the next chart actually shows that a little more clearly, quarter-by-quarter, showing you the investments we made in the business in 1998, 1999.

As I said, we went earnings positive, \$7 million of earnings fourth quarter of last year. It did \$16- the first quarter of this year, \$24- the second quarter, and I've seen the preliminary numbers, and you can start drawing lines here. I mean, this is we're establishing good momentum, a good trajectory.

This business is a high-operating leverage business, which means that once you've got the fixed costs in place, once you have the sales force and the engineers to execute the contracts, regulatory people, back office, once that's in place, it's pretty much fixed. So, as we bring in more and more contracts, we start seeing a real impact on profitability. So this business has clearly turned the

corner, and it's doing some great things for us.

This just shows quarter-by-quarter contracting activities, which is just a great chart. Customers like it. This shows some of the customers that we brought in the first half of the year 2000. These are great customers. IBM, a \$610 million, 10-year transaction; Chase, \$750 million, 10-year transaction; Major Manufacturer, that's one of those companies that's really got a great name.

[Laughter.]

MR. SKILLING: We tried to get it, too, but it was already taken, but they're trying to keep it secret, a \$583 million, 10-year contract; Owens Corning, an up-sale of a contract that we landed last year; Tebacore [ph], billion-dollar, 10-year agreement; Prudential, \$180-million, 10-year agreement; Sunoco, \$210 million. I mean, this is just--these are great customers.

Last quarter we also announced, I guess it was this quarter we've announced Starwood Hotel. Starwood is Westin, Sheraton, St. Regis. It's a luxury collection, Four-Point [ph] and W Hotels [ph], but 400 properties in the

United States are now being managed by Enron Energy Services. This breaks us into the hospitality business in a big way, and I think we're going to start seeing a lot of follow-on.

With what's going on now in energy prices around the country, there is a tremendous interest in this service. So I would expect we'll see a lot of interest and a lot of additional growth in this business as we go forward.

The broadband business, continuing to make progress on getting the network in place. We'll have 14,600 miles of fiber in place. We've already deployed 525 servers. We're a little bit behind schedule in the server deployment, Kenny, but I guess that's just the way things go.

[Laughter.]

MR. SKILLING: And then pooling point cities, we're going to beat our original estimate. I think we'll have 23 in by year end, but the network is looking like this. The servers are now being spread across the country. We've moved into Europe. We're in the process of getting

Asia linked and to the system, but this is becoming a real, a real network, an effective network for our customers.

We've also announced a number of commercial transactions. As a part of the Blockbuster transaction, we've developed relationships with new distribution partners, including SBC, Qwest, Verizon, Covad, Telus, Reflex. These customers or these distribution partners will help us get high-speed data out to households. So they'll get their DSL connections in place, which allow us to take high-speed data off of our network and get it all of the way out to the customer.

I made progress in Europe. I think we are now at 50 employees today. We're targeting over 100 by year end. We've got now a presence in the U.K., Germany, France, and the Netherlands. We're starting to sign up distribution partners like the partners we have in North America. We actually screened Wimbledon over the Internet, which was a nice publicity--it was a great thing, good, it was good.

[Laughter.]

MR. SKILLING: It was good. And we're extending

our reach in Europe to other areas. So the network is coming together, and we're getting kind of a global footprint.

Then, on the two P&L centers for broadband services. The first one, as you know, is what we're calling bandwidth intermediation is creating the same products and services we created in the wholesale business. This chart shows the cities that we call top-tier cities. You can now call up to the trading floor in EBS, and you can start getting prices for bandwidth between these city pairs going out in time. So this is the first time this has happened.

We're starting to see increase in activity. We're doing about 7 to 10 transactions, last I heard, traded transactions. This is ahead of where we were in the electricity market at this stage, so this is moving along very well. I feel very good with the progress we're making.

And then in the other P&L center, which is our content services, Ken mentioned the Blockbuster transaction. I think that's just indicative of the type of service that we can offer the marketplace in EBS.

So, overall, business is doing great. In every one of our businesses, we have market-leading positions. We have a solid core of business, and we're providing consistent, sustainable earnings growth, and the Street likes it. That's why the stock price has responded the way it has.

At the same time, though, we have shown an ability to develop new businesses. We have created a number of new businesses that have been very, very successful, and these new businesses tend to have a high-technology content, which the Street also likes. But we are differentiating ourselves from the other players in the business. Enron is really the class act. In fact, at the last analyst meeting, they introduced the fellow who is the CEO of El Paso by saying this is the CEO of El Paso-ron.

[Laughter.]

MR. SKILLING: They're trying, but they won't match us. But business is doing great. Thank you so much for your time and all of the hard work you're putting into it. The performance shows that you're doing a great job.

Thank you.

And, Joe, we'll turn it over to you.

[Applause.]

MR. [SUTTON]: All right. After all of that great news and everything we've heard today, we should feel pretty good, shouldn't we? Huh? We should feel really good, shouldn't we? Let's give ourselves a hand.

[Applause.]

MR. [SUTTON]: You know, for five straight years in a row, Enron has been named the most innovative company in America, for five straight years in a row. Now we've been named the most innovative company in the world. That should make us all feel pretty good too.

[Applause.]

MR. [SUTTON]: I told Jeff I could do this, so we're going to try and do this, okay? We're going to get a wave going across the room here, an Enron wave to celebrate being the most innovative company in the world. So, Jim [inaudible], you're in charge of that section, jump up. Mark Palmer, you have this section, and, Jeff, you've got

your own section here. Okay. And you have that section over, you with the tie right there, stand up.

[Laughter.]

MR. [SUTTON] : Okay. So we're going to cheer, first of all. So everybody, as you stand up, you cheer. All right? And you've all seen waves, right, in baseball games and stuff. So let's get ready to rock-and-rock roll here. Come on, Prentice, get up and get going, okay?

[Audience did "the wave."]

MR. [SUTTON]: That was terrible.

[Laughter.]

MR. [SUTTON]: This is the most innovative company in the world, right? Come on, Prentice, let's go.

[Audience did "the wave."]

MR. [SUTTON]: Okay. Now all of you out there in London, and India, and around the world, that was a wave here in the Hyatt in Houston.

No, I think it's just fantastic. If you look at what your company has done, it's just been marvelous. The most innovative company in the world, followed by Nokia,

number two, and number three was Home Depot. So there's some good competition.

We're, also, for the first time, on the number twenty-five on the Fortune List of All-Stars. This is the first time that we've been on this list, which means our company is moving into more new territory.

I think that if you look at the most innovative, certainly, that's our title, but as important as that is the fact that we also are number two in keeping our talent, right behind G.E. and followed by Merck. So we're in some pretty good company there. So your company is doing just fantastic and it's being recognized for that.

What I want to talk a little bit now about is something that will impact you, and that's this employee survey. We recently renamed it "The Pulse." So you're going to hear about The Pulse over the next several days. This is our employee survey that we put out each year. This means something to your company. We take your feedback and apply it over the next year to try and improve our position in the company and make our company better.

The survey kicks off October 16th to 27th. I'd like to try and get a very high response rate. We should have 100-percent response rate. It's your company, your input. We should strive for 100-percent response rate. It's on the Net. It takes literally a few minutes to input. Your input has a great impact on your company.

I might also add, of course, it's entirely confidential. You can say anything bad you want to say on there or anything good you want to say on there. What we've attacked this past year, as a result of your responses last year, was communication. You've heard all year about being better communicators. We've done different things to drive that point home.

One of the problems we saw last year is we thought that the breakdown was really stemming probably at the senior leader level or at the senior level, not the top level, perhaps at the vice president level, the director level, the management level. So we put some training programs in place to try and train those managers or those supervisors to be better communicators. And one of those

things is we've made it mandatory for all vice presidents and above to attend this Executive Influence and Impact program, which is a training course that helps them become better leaders in your company.

We also have worked quite hard on monitoring suggestions and getting communication lines open from, from you. Your Visions and Values Task Force, as you see here, has kicked off some programs that we think are supportive of this. We've got new directories out there to help us be able to find out where people are inside of Enron.

We put some training programs in place to augment the Executive Impact and Influence Program, and we even came up with our own session, if you will, called P&D session, which allow--fourth quarter--which allow us to discuss issues openly in groups, hopefully, that we can resolve fairly quickly that will make our company better. These are Enron-unique P&D sessions. It's Participate and Dissent sessions. It gives you a chance to give your input and your views as we communicate better.

So I implore all of you, please, take time in this

next two-week period, I guess it starts the 16th, to give your input. It'll make a big difference. And evaluate us fairly. If you think we've improved in an area, then give us credit for that, and we'll go to the next area as we go forward.

So I think we can be very proud of our values, the foundation that makes us a great company, and probably the best thing we can do now is to throw it open to questions. So thank you very much.

[Applause.]

MR. LAY: Okay. Thank you, Joe.

We will now go to questions. There were cards, I think, on your chairs when you came in. So those of you that have questions, if you fill those out, we'll pick them up. Certainly, those of you that are watching this through the IP/TV, I think you've got a way of sending in questions, too, which they will get to us here on stage.

So we'll start off with some pre-submitted questions and answer those until we get a few of the questions either from the floor here or from other locations

around the, around the world. We're already getting them.

Joe, why don't you take this first one.

MR. [SUTTON]: The first question we got in is as follows:

"It is well understood that the eastern part of India is not as industrialized as the rest of the country. The major resource crunch is the availability of energy. The States of Tripura and Bangladesh have rich natural gas resources that lie underutilized. As we learned from newspapers, an Abu Dhabi, an Abu Dhabi-based company plans to import L&G from Australia. The question has to do with what is Enron doing to try and promote business on the eastern side of India."

The answer is that Bangladesh has large gas reserves, that's true, and the East Coast of India needs those gas reserves. The problem is the country doesn't want to export it right now. We spent probably three years in Bangladesh trying to convince them to export that gas to India and have made very little progress because of political reasons and other reasons in Bangladesh. So we're

focusing on the opportunity, but until the country wants to export gas and move it towards India, we can't do much about it.

MR. SKILLING: The second question relates to EBS, and it says: It seems lately that many other companies are jumping on the broadband wagon. I see a litany of commercials touting what seems like similar plans to what EBS is trying to do. Specifically, I notice a lot of AT&T airtime.

My question is related to how this affects what EBS is trying to do. Is what we are doing proprietary in any way? I would hope so. It seems that we're investing tremendous amounts of financial and intellectual into EBS. Have we anticipated what we will do if the market gets flooded and competitors start selling the same thing? What makes us different?

That's a great question, and I think the test of an effective strategy is that you can differentiate yourself from the competitors. I think in each of our businesses, we have tried to come up with a strategy that is fundamentally

different that gives us a competitive advantage.

In EBS, what we're trying to do is to create a market for bandwidth. Most of the existing players in the business are trying to build linked systems, where they go all of the way from the content supplier to the end user. What we're trying to do is we're trying to make markets in components of that to make it flexible so the people can get real-time bandwidth, bandwidth on demand.

There is no one in the industry today that's focusing on that. Our network is designed for that, the market making that we're doing supports that. The people that we have understand it from the gas and electricity business. I think it's a fundamentally different strategy than other people are pursuing, and to date we haven't seen too many people that have developed that capability. So I feel real good that we've got a differentiable strategy in that business.

MR. LAY: The next question, "It seems that Enron is spending a lot of money and time to get Bush elected."

[Laughter.]

MR. LAY: I thought I might be the right one to answer that.

[Laughter.]

MR. LAY: "I don't think this is something a corporation should focus on, do you?"

As a matter of fact, the company is not. I mean, the company does not make contributions to any federal candidates. By law, the company cannot. Now our PAC can make contributions, individuals can make contributions, but not the corporation, and, indeed, the PAC has made some contributions to the Bush campaign and to a lot of other campaigns.

And let me say we do, in fact, also support Democratic candidates. I think the last I saw, if you look at our total PAC contributions, they come down to about 65-percent Republican and about 35 or 60- to 65-percent Republican and 35- to 40-percent Democrat, but we basically look at the candidates and try to determine which candidates we believe are best for the things that we believe in, which are open and free trade, deregulating electricity markets,

deregulating other markets, making markets more competitive, allowing competition to work, reducing regulation in general, reducing the tax burden, in general, in the private sector.

And, indeed, quite often, when you start adding all of those things up, why Republican candidates are more likely to do that than Democratic candidates.

Now, from the standpoint of me, personally, and let me say there are other executives that have also made significant contributions to the Bush campaign, first of all, I strongly believe in his candidacy. I strongly supported him when he ran for governor of Texas both times. I strongly supported his father back before that. But, indeed, I believe in both his character and integrity, as well as the policies he's proposing.

And the New York Times, of course, makes a bigger deal out of that and the Wall Street--well, not the Wall Street Journal so much, but the Washington Post, where, in fact, they don't think there's anything--they don't think an individual can make a contribution just because they believe

in the candidate and believe in the policies. They're always doing it to get some benefit when, in fact, many people make contributions because they believe that's--in the candidate and believe in the policies, and that's exactly my situation.

I hope that cleared that up just a little bit.

I guess, while we're at it--

[Laughter.]

MR. LAY: "Will Ken Lay go to government if George Bush is elected president? Will that be good for Enron?"

Well, it might be good for Enron if I did, but I don't plan to.

[Laughter.]

[Applause.]

MR. LAY: And just a little further explanation on that. I mean, I've had the opportunity--well, of course, I've been in a high-level government position back early in my career, so I've been there, done that. I know what it's all about. I've been offered other positions along the way, which I've turned down. And, indeed, I did not aspire to go

back into the government. I'm very happy staying here and working with Jeff, and Joe, and all of you and continue to have all of this fun and make this a very exciting company.

[Applause.]

MR. SKILLING: "Is it true that if George Bush is elected, you'll become head of the Tire Safety Board?" This is for me.

[Laughter.]

MR. SKILLING: Just kidding. No. No.

Okay. "Can you respond to the Wall Street Journal article claiming that we booked more mark-to-market income than we had in earnings for the second quarter, and that but for mark-to-market, we would have had a loss in the second quarter. Is that correct?"

For those of you who didn't see it, there was an article in the Texas section of the Wall Street Journal, and I think it was about a week and a half ago that was talking about the accounting methodology used by energy merchant companies. And one of the comments they had in there was that we had more mark-to-market income than we had

total earnings. So, if we didn't have mark-to-market income, we would have had a loss for the quarter.

As a matter of fact, that's correct, but that's a little bit like saying, if General Motors didn't sell any cars last quarter, they would have lost money. It's the exact same analogy. It is just totally, totally without merit.

We mark-to-market our positions. And what that means is at the end of every day, we determine what the value of all of our purchases and the value of all of our sales are, we subtract them, and we figure out how much money we made that day. We don't only do it every day, we do it every quarter, and we do it every year, and that's how we recognize income.

So every time we sell natural gas, typically, there's a contract attached to that, and that contract has some period of liquidation, but at the time the contract is entered into and signed, that's when we recognize the income, and that is the appropriate way to account for this business.

And the Journal article, I, you know, quite honestly, it had a couple of guys in there I think their major beef was that we were not more open in disclosing the methodology we use for mark-to-market accounting. And, quite frankly, we provide more data in our annual report than anyone else in our industry and more data than anyone in any transaction-based industry. We provide VAR limits, average VAR, what the limits are, and other people don't do that. We give more information than anyone else.

To provide additional information, we would probably have to go through and give the methodology by individual book, and we have I think now 2,900 books around the company. You just can't do that in an annual report. It would be this, you know, it would be this tall.

So I think the entire article was just, you know, it was just one of these things that gets dredged up every couple of years. It has absolutely no merit, no substance. Our accounting policies are not only appropriate, in my opinion, they're conservatively executed. So we're in a strong position from an accounting basis.

MR. [SUTTON]: I'm going to try and tackle three questions here at once, if we can, and see if we can move along. The question that was asked was, "Much rumor has been buzzing about the possible sale of former ER regions, Apache, CALME [ph], et cetera. What is the status?"

First of all, as you probably know, and we've said all along, we've got to work to redeploy our capital in Enron. We only have so much capital, and it's important to put that capital in high-return opportunities, and that continues to take place at Enron.

What we are doing now is we're focusing on selling some of our regulated assets in those regions that we think don't provide the return potential we'd like to have. For example, in South America, we're not leaving South America. South America is a very important market to us. It's a market we can work in and develop our merchant business, much as we have in North America, and Europe, and South America, as those markets evolve, and they're evolving now.

So we're selling or trying to sell the gas LDCs we have in that region, which are the gas distribution

companies. We own eight of them. All of those are regulated assets yet to be developed, and so those we're going to sell, and we're going to sell Electro, our utility in Sao Paulo, which is much like Portland General. Those are businesses that don't fit the return opportunities that we like to see over the long term, but the business will still say an Enron business in South America.

With regard to CALME, the Caribbean LNG and Mid-East business, we've recently redeployed that business. We're going to take the assets in CALME that we want to keep, some of the pipelines, and put those in South America. The power plants and those things will move into North America because they better fit what they're doing, and it also gives those people a chance to evolve into our other new businesses that are growing in North America.

We have taken the Mid-East, an LNG, which is basically a fuel play. And one of the questions here is, "Is LNG strategic?"

Absolutely. LNG is a very important means to provide gas to markets, and we want to be involved in that

business. So we put it in global markets under Mike McConnell, so it'll work with the rest of our fuels business in that area. We put the Mid-East there as well because, if you look at it, Mid-East, that's primarily the focus there is energy, and fuels and where fuels come from.

We've also moved the power plants that were part of the old CALME region into global markets because they are basically fuel related. They are diesel plants that are tied to a fuel base, and we think they would be managed better there.

The people that are part of CALME are still Enron people, and all of those people have been either with their assets or outside their assets and redeployed to other parts of Enron, where they have a chance to continue to grow and help Enron grow. Once someone is an Enron person, that's important. When you have a big "E" stamp on your forehead, that means that you can work in different parts of the company. So that's what, one of the questions is, "What does redeployment mean?" And it means we take people, and as we shift our businesses, we shift our people, if they

have those skills.

We plan on keeping Enron India where it is. We may move more into the broadband area there, use our name and our presence in the market there to get into higher profitability opportunities in that area.

We also took, if you saw, we took Japan, which is a growing market with great trading potential and put it in Europe because Europe was primarily supporting that effort anyway, as we did Australia, which is an ongoing trading effort that fits into this trading regime that we do in Europe.

So, yes, we've done some shifting around, yes, we've moved some things around, but it's to strengthen Enron and the people inside of Enron.

MR. LAY: Next question, at least I have here, "Mr. Lay, would you please address why is Enron moving employees into asbestos-filled buildings? The Jefferson buildings, 500 and 600, have asbestos in the ceilings. Why are you doing this? I understand the shortage of office space, but this seems a little drastic."

Well, obviously, we would not move people in there if we thought it was unsafe, and we've done everything we can to evaluate and test that. I mean, even before the decision was made to take some space over there on a temporary basis, and we are continuing, I'm told, continuing to monitor asbestos on a very regular basis, and thus far we have not even detected any. So, I mean, it's not even up to a detectable level, nonetheless, to a safety level.

So, again, it should not be a concern. I think I'm also told that the asbestos over there is largely sealed in the walls and the ceilings in a way that there should not be any risk at all, certainly, as long as people don't start cutting down walls and ceilings. So, if you were thinking about that, maybe you ought to stop it, and then everything else is okay.

[Laughter.]

MR. LAY: But it does speak to this whole issue that Jeff alluded to. I mean, space is becoming a real, a real premium in downtown Houston, really, in all of Houston, and particularly Class A space, and that's obviously the

reason we're building our own new building, and we're building as fast as we can. And, hopefully, by this time next year or a little sooner maybe we'll start, hopefully, we'll start moving some of our people into that new building.

But we continue to look for other options too here from the standpoint of what next because at the rate we're growing, the space in that building will be used up pretty quickly. We've got the same problem in London, which was also referred to by Jeff, and we do have a question here concerning that.

"The Canary Wharf deal is off. Where are we going to expand in the U.K.?"

Well, I think, basically, we're just going to let the original option expire under its own terms, but we're looking at a lot of alternatives in London, and some reasonably good ones, and some options that, of course, would also not require our people to move too far from where they are now--certainly, within that general region.

So we're looking at all of the options that we

can, but it's perhaps both a good and a bad problem, but we are growing rapidly. We're adding a lot of people. We're using up a lot of space, and we're scrambling to make sure that we've got plenty of Class A space, good space, good, healthy space for all of our employees, and we'll just continue to do that the best we can.

MR. SKILLING: "Did Mike McConnell and Ken Lay coordinate wardrobes today?"

[Laughter.]

MR. SKILLING: Stand up, Mike.

MR. LAY: Mike, I think you look great. I think you look great.

MR. SKILLING: "And if so, how come you did not inform the rest of us?"

[Laughter.]

MR. LAY: Well, you must not have gotten the e-mail, Jeff.

[Laughter.]

MR. SKILLING: Okay. I've got a long question here, and I won't go into all of the specifics, but someone

has written in asking about our ratios, a number of our ratios, financial ratios compared to some other players in the industry, and they're comparing Enron to AES and Calpine.

I'll just tell you a couple of things that they pointed out here: "That our current net profit margin at Enron is 2.43 percent, at AES it's 12 percent, and at Calpine it's 13 percent or 12 percent, also." So that was one. "And why is that?"

Well, the reason for that is that we have a very large merchant activity which increases our revenues for relatively small-margin business. Now that's okay, as long as we can get velocity up. If it doesn't take a lot of capital to support that, then we're still generating a lot of income per unit of capital, and I'll get to that in just a second.

But revenue ratio is really not that relevant in our business these days. The number that's really important is the return on equity and the growth rate. That's asked next, return on equity. For AES, the return on equity is

the highest at 23 percent, followed by Calpine at 16 percent, and Enron at 12 percent, and it's just asking why is that and what do we need to do to improve that.

I've mentioned to you before that the two key numbers, when people are looking at our stock price, are our return on equity and our growth rate. Those are the two numbers that people look at. In fact, you can mathematically you can figure out, if you take return on equity minus your cost of capital, that tells you what your profit margin is, and you assume that that will continue in the future, and if you can grow it, you can actually come to a discounted value of the company. So those are the two numbers that everybody looks at, return on equity and growth rate.

Our growth rate is great. In fact, our growth rate is probably one of the best growth rates of any large company in the company [country]. Our return on equity stinks, and we've got to do something to improve that over time. Now the marketplace and the analysts are looking at us, and as I've mentioned before, we're doing a lot.

We've talked about this redeployment of assets, Portland General, some of the assets in South America and the international groups. We have got to our return on invested capital up. We have a lot of investments we've made over the last 10 years that are not earning compensatory rates of return, and so what we have to do is we have got to get that capital out of there and redeploy it into businesses where we can earn a high rate of return.

This is very positive for all of us. If you look at some of our businesses, like in Europe, they are constantly buying and selling assets in the course of our business, constantly buying and selling of assets. They don't define themselves by assets, they define themselves by business, and the same people stay there. It's just that they're using these assets to make profitable investments, and then they flip them so they can get the capital out and redeploy that capital in the business.

That is the most important challenge we have as a company. Because, as this person points out, our return on equity is anemic, given the businesses that we're competing

in. We have got to get that number up.

I'll give you another example I've used before just to reinforce it. Our growth rate is a little bit higher than General Electric, and I think most people expect it to be significantly higher than General Electric. Our return on equity, compared to General Electric, is half of General Electric's return on equity, and both of us have the same PE ratio.

Now something has got to give, and what's going to give is we're going to get our return on equity up. That's what we're going to do because that will make the stock price go up, and that will keep our investors happy. But that's a key. Everyone should be thinking constantly, how can we get our velocity of capital up, redeploy capital from low-return opportunities into high-return opportunities, and that will get the stock prices up longer term.

MR. LAY: Joe?

MR. [SUTTON]: We have several questions here regarding EECC and their future.

I think it's--the question or one question says,

"We, at EECC, feel like we're being shut out of Enron's future. How do we fit into Enron's future? What is the corporate strategic plan and forward expectations for EECC and NEBCO? What is the set-up of the EECC? Are they being absorbed into EES?"

The plan right now, and this is a very new plan, we've been working on it this--the end of last week, and we talked about it some more yesterday, is we're going to keep NEBCO as a separate company inside of Enron. NEBCO, as you may know or not know, is a construction company we own outside of Washington, in Washington. It's been very successful and very profitable building power plants in North America, in the United States.

We're going to keep NEBCO. NEBCO will be a separate company and will fall under the justification of EES. It will be part of EES, as a separate company focused on building power plants, which is their expertise. The plan is to take the remainder of EECC and roll it also into EES so we can take advantage of those synergies inside of EES, the good engineering and services functions that EECC

has done so well, to help grow the business inside of EES. And so that will be happening. So EECC is very much a part of Enron's future.

Will EECC have to do some things differently? Will it have to learn some new skills? Will it have to evolve into a little different, in a different way? Absolutely. But that's what Enron is all about, and EECC is very much a part of that. So that announcement will be coming out soon.

MR. LAY: I'll handle a couple here. There's some more right there.

"Where can we learn about Enron's corporate strategy? Every now and then we stumble on plans from individual business plans, but I've never seen an overall strategy paper. Do you write them and not show us--"

[Laughter.]

MR. LAY: "--or do you believe in setting a strategy?"

But that really is a good question. And having started my career in the Corporate Planning Department of

Exxon, I know something about setting corporate strategy. And from the standpoint of trying to lay out, you know, growth rates, and investment requirements, and deciding, you know, how to allocate the capital among the various businesses and all, that's all very interesting, but in the end, the result is probably pretty predictable.

You're going to continue to stay in the same businesses and continue to run the same businesses, adopt the same way you've always run the same businesses, and you'll probably miss any big strategic change in the road that comes along in that industry.

At Enron we have a totally different approach to it, and basically we expect virtually every employee, but certainly every business unit to be thinking about strategy all of the time. One of the key things that we expect, particularly out of our management group, is to, in fact, continue to think all of the time about how they can take their businesses in a different direction or make it more profitable doing what they're doing, add on things that they hadn't thought of before.

But, indeed, I think it's because of that environment, where we do encourage our business units, and the leaders of those units, and all of the people in leadership positions in those units to always be thinking strategically, always be thinking strategically, not just operationally, on how we can, you know, maybe cut the costs a little bit more or get a little more efficiency out of the machine, but thinking strategically how do we take this business to the next big level, the next big leap in whatever we can do.

And certainly that has led, I think, to a lot of the innovation that's occurred at Enron, and I think that's the reason that we are recognized as the most innovative company in America and the most innovative company in the world because we don't have a Strategic Planning Department trying to figure out what our next strategy ought to be. We have several thousand employees trying to figure out what the next strategy ought to be in their particular business units or their particular part of that business unit, and I'd sure hate to see that discouraged.

Now, as a management team, obviously, we do go through annual budget cycles, where we really--and we go through quarterly business reviews, we go through a lot of other process at Enron where, in fact, we are always asking questions about that strategy and asking questions why not that direction or why not some other direction, and I think that's very appropriate, but we still expect an awful lot of the original ideas to be floating to the top, not floating from the top down and being forced on the organization, and that's worked very well.

Maybe one of the better examples of that is the success of Enron Online. I mean, that was something that was created by the business units, by the leadership people in those units, and of course it's been a great success like so many other things.

MR. SKILLING: This question says, "I see the value of Enron's experience in risk management and mark-to-market strategies, but I'm concerned that these type of 'gap-fit' business models may divert us away from potentially valuable business opportunities. Journals such

as Wired and Red Herring have recently written about the weakness inherent in gap-fit analysis and have noted that many successful new technologies and markets would not have passed the muster of this test."

I'm not familiar with the gap-fit business model. I don't, I don't know what this means. Whoever submitted this, if the point is that we're doing something systemically or we're making some mistake in the way we're evaluating new business opportunities, I'd be very interested in hearing about that. So whoever sent this in, I'm just not familiar with the terminology here, but please send it and let us know if there is something that you think is wrong in the way that we're looking at new businesses.

I'll answer one other one just real quickly. It says, "In light of the threefold increase in oil prices over the last year, are there any regrets on divesting EOG a year earlier?"

Absolutely not. And let me tell you what the trade-off, and this goes to this whole issue of redeployment of assets and reinvesting dollars and higher growth

opportunities. We target a credit rating as a company, and we have targeted a BBB-plus credit rating, and we try to sit on the ragged edge of BBB-plus. We want to be as leveraged as we can be, and still keep that credit rating because that allows us to lower our cost of capital.

Last year, we were on the ragged edge, as we are every year. Had we not sold EOG, we would have had to end up issuing equity, Enron stock in the marketplace to fill the gap. So that kept us from issuing equity. So the way of thinking about it is we actually bought in stock. The net effect is that we issued less, so it's effectively we're buying in additional stock, and our stock has tripled over the last year. So we--since the end of the EOG transaction, I think we're up 150 percent or something, but it's a significant increase.

So, from a shareholder's standpoint, we are far better off by taking those assets and putting them into our higher growth businesses because we've gotten a higher rate of return for our shareholders. So that's what we have to be thinking about.

The other thing I think that's important is we never were all that interested in holding a commodity position. If we wanted to speculate on commodity prices, we could put on a position that was five times as big as EOG on the 32nd floor in about a minute and a half, and that's not within our trading policy limit. So we don't want to speculate on the energy crisis.

MR. **[Lay]**: I might just add one other thing, which Jeff alluded to, but I mean we've made many-fold more money out of the rise in gas prices through our wholesale business over the last six to nine months than we ever could have by owning EOG. It just gives a lot more flexibility with a lot less capital.

MR. SKILLING **[SUTTON]**: I've got a couple of quick ones here. The question is, "Enron prides itself on communication. However, we are using a phone book that is two years old."

[Laughter.]

MR. SKILLING **[SUTTON]**: "I know we have a people finder, however, I still find a hard-copy phone book

indispensable. Are we ever going to print a new phone book?"

The answer is yes. As I said earlier, not only are we printing a new phone book, we're putting many new ways to access people inside the company by way of the Net and also a printed phone book, and that should be out soon. So those of you who like an old phone book or like a printed phone book, you'll have a printed phone book. Okay. It's bigger than it was before, but it'll be a printed--it's thicker, we have more employees, but it'll be coming out soon.

There was also a question, "When do we know--" or "When do we know we have enough people stuffed on a floor?"

[Laughter.]

[Applause.]

MR. SKILLING [**SUTTON**]: I think the answer is when you no longer can go to the bathroom without asking someone to move, then we have enough people on the floor.

[Laughter.]

MR. SKILLING [**SUTTON**]: Another question here is

what does the future hold for Zurich **[Azurix]**?

As you may know, recently, we made some managerial changes at Zurich **[Azurix]** or Zurich **[Azurix]** made some managerial changes. They're working on putting together a new strategy for going forward that allows them to operate more within the means that they are in now. It's our hope that that strategy will be unsuccessful **[successful]** and that Zurich **[Azurix]** will flourish.

Now it's going to take some time. They've got to come back from a pretty deep hole, but these management changes we've made, we've downsized some of the management structure over there, and they are focusing now on, we think, strategies that make sense for them as they grow in this market. So that's our hope for Zurich **[Azurix]**. As you know, Enron is a shareholder in Zurich **[Azurix]**, but it's a public company. It's treated as a public company, and it's run that way.

We don't dictate what a Zurich **[Azurix]** does. That comes out of their company, their shareholders. We can certainly influence it as shareholders, and we're members of

the board. We can do it that way, and we think they're on a better track now than they were before.

MR. LAY: "Ken, why have you gotten involved in another sports venue? Why do you believe so strongly in the new arena? What is it like to work with Don Jordan?"

[Laughter.]

MR. LAY: Well, and it is kind of interesting. Like so many people in this room, the last thing I needed was another project too. But, of course, we tried to pass the referendum on the arena last year, and it failed, and I expect this is kind of the last bite at the apple we have on the arena. And if we don't build a new arena, most of us are convinced, we will ultimately lose the Rockets and the Comets.

Now I'm not that avid a sports fan. I enjoy sports, but I expect there are other people, at least one on this stage, that's a much more avid sports fan than I am. But at the same token, I think it is very important that Houston has been, if it's going to be a truly world-class city, that it offer its citizens all of the things that a

world-class city offers, and that very much includes professional sports.

And, of course, we worked hard to get the referendum passed four years ago that allowed us to build the new baseball park downtown, and of course keep the Astros in town, and they were getting ready to leave. And, of course, I think not only has that become kind of a fun venue, with a very appropriate name on it, I might add--

[Laughter.]

MR. LAY: --which was not the intent at the time, not even contemplated at the time, but it's also greatly helped revitalize our whole downtown area. This has made downtown a much more exciting place to live and work, and I would maintain made Houston a lot more attractive city overall.

I think the same thing, and of course that same referendum passed or made it possible to now begin building the new football stadium, get a new football team to replace the one that we lost not too many years ago, and I think it's very important that we build a new arena and kind of

continue the downtown revitalization, and of course keep the Rockets and Comets here.

Now let me make sure you understand, I mean, I also think it's very important, and there are very few cities can say this, but it's very important that we do have a world-class ballet, and opera, and symphony, and museums, and of course theater, and parks and all of the other things that we have that really add up to the quality of life in Houston, Texas.

That becomes really important to Enron because we are in the business of trying to attract, and I think we have attracted, the very best talent in the world, the most creative, smartest, best talent in the world. And that kind of talent has a lot of alternatives. And if we're trying to attract the kind of talent that we have to attract and want to attract, we have to compete not only against world-class companies around the world, but also other world-class cities.

And quite often the final decision as to where those people are going to go to work come down to such

things as, well, do they have professional sports, do they have ballet, do they have the arenas or do they have a world-class downtown area, do they have all the various amenities that make for a high quality of life?

And so, from that standpoint, it's very business oriented. I mean, we want to continue to do everything we can to make Houston a very attractive place to attract and keep world-class talent, and the arena is at least part of that equation.

Real quickly here, both a question on the stock price and "at what price will Enron stock split?"

Of course, stock price depends on a lot of factors outside of our control as a company, but if we keep performing, as we have been performing, and Jeff laid out a lot of statistics for you in his presentation. I mean, he used the word "stunning," and that's right. I mean, we've had performance this year, and really the last two or three years, that has been absolutely stunning.

If we keep doing that, absent a total stock-market meltdown, the stock price will continue to go up and go up

significantly. Most of the analysts right now have a target price on us from \$100 to \$115 a share. They keep raising that target. We expect it to keep being raised, but there's no reason that we can't--if we keep growing our EBIT at 35 to 50 percent a year or 30/35 percent a year, there's no reason the stock price can't go up at least 30 or 35 percent a year, and maybe a lot more than that if some of the strategies on broadband really begin to come in with better visibility.

On stock split, I think we talked about that last time, there's really not any sacred number. I think Jeff handled this question last time. I mean, it is expensive to split the stock. There is a certain amount of administrative cost involved in it. Theoretically, it shouldn't make a lot of difference. I know it kind of adds a little bit of hype, particularly at the retail level, but for the institutional holders, in particular, they don't care if the stock price is \$40, \$80 or \$160, as long as they can see the kind of growth rate that they're looking for in earnings and also the type of return on capital.

So I think the important thing is just keep performing. Stock price will keep going, and probably again at some point, why, we will seriously look at a stock split.

MR. SKILLING: This one asks, "Is GPG being reorganized and/or sold and when?"

As far as reorganizations, I would assume, like every other business in Enron, GPG probably will reorganize once a day, maybe twice a day.

[Laughter.]

MR. SKILLING: So I don't know about reorganization. As far as being sold, absolutely not. The pipelines are earning a tremendous rate of return on our capital invested. They provide some benefits for a balance sheet that allow us to get additional leverage on the balance sheet that we wouldn't be able to get otherwise. And for those two reasons, GPG is a tremendous contributor to the business, a real solid platform of earnings and cash flow that we can use to build the rest of our businesses.

The second question this person asks is, "CALME employees need to find their own new jobs due to the

dissolving and closing of CALME. H.R. is useless. They never return calls or e-mails and act as if they belong on the 50th floor."

[Laughter.]

MR. SKILLING: Heaven forbid.

[Laughter.]

[Applause.]

MR. SKILLING: I'm watching the camera pan through the--oh, let me get the last of this person--the last comment by this person, and then I'll come back to it.

"All of this fancy equipment in this room, well, there goes my bonus."

[Laughter.]

MR. SKILLING: Actually, we just--we don't own this equipment, do we? I think we're just--we rent it. We rent it. This is a low-capital intense operation.

[Laughter.]

MR. [LAW] : We're going to make a market in this equipment.

MR. SKILLING: Yeah, we're going to make a market

in it too.

As far as H.R. support on CALME and the redeployment of people, we are trying very, very hard to redeploy everybody in the company. I mean, our talent is our number one resource. And so as markets change and as our emphasis moves from one area to another, what we try to do is we try to get the people to move along with that.

So, for example, in the Asia Pacific area, we moved in one two-week period about 70 people from Asia Pacific into broadband. I think at this point in CALME, we've already moved--204 people have already moved so far in the last, what, two weeks? In the last two weeks, and I think there are only about 16 more to go. So everybody is working. This is a major undertaking. This is a lot folks, and we're trying to make sure everybody gets great positions and moves into places where they can contribute.

So, if H.R. is, I wouldn't say useless, but they're--they're probably real busy, and so just cut them a little slack and give them a little time, but we're going to do everything we can, and we will succeed in transferring

all of the people and moving them into other areas of the business, where we've got faster growth opportunities.

MR. [SUTTON] : Here's a question on Click at Home, and I may ask Kenny to give me a hand with this, but "When will this awesome deal be available for employees? Other companies are offering this now."

This is a little bit ahead of the press, but is this okay, Kenny, to say this? The Click at Home will be announced soon. We're offering it to all of our employees worldwide. It will be the opportunity to actually get a computer hook-up and access in a discounted way to DSL or an Internet line, as well as at home, at Enron. It will be the cost, the company will bear the cost for that. We think the return we'll get from that will just be fantastic for our employee base and for our workforce.

So this is coming out. So the answer is, the question was when, I think within the next couple of weeks, and we'll start doing it the first quarter of next year, and then we'll launch it then. So it's--it'll be a big announcement. We have the announcement on our desk now for

approval. So it should be out, by the end of the week, the announcement will be made.

MR. LAY: Just trying to elaborate just a minute on that, and maybe I just didn't hear everything you said, Joe, which is not unusual--

[Laughter.]

MR. LAY: But, basically, what he's saying is we're going to provide a free computer for every employee for home use, and broadband connection everywhere we can arrange for broadband connection. And, hopefully--

[Applause.]

MR. LAY: And that will cost a lot more than this room and all of the equipment--

[Laughter.]

MR. LAY: And that will not have any adverse impact on anybody's bonus.

[Laughter.]

[Applause.]

MR. LAY: Clearly, we think that by doing that we'll just make our employees, and their families, a lot

more computer proficient and in the process, a lot more productive employees. You know, whether, in fact, you do more work at home or not, that'll be your choice. You've got that choice today. But we think in today's age, that that's something that, in fact, will, again, help Enron employees be several steps above everybody else.

Let me wrap it up. We're coming up on 11:30, and we do try to get you out of here by 11:30. But, again, thinking back again to Jeff's presentation, but to the company's performance, I mean, I have been here for I guess a little longer than most people in the audience, I guess now about 15 years, and it's been a pretty exciting 15 years, and we've done a lot of exciting stuff, but I have never seen the company stronger, better positioned than it is right now.

I mean, I've never seen the kind of opportunity, the type of potential growth that we have right now. And it's not one business, it's not two businesses, it's several businesses, and even, further, several other things are being incubated right now that we have not talked about.

And that, again, as I said earlier, is all part of the beautiful process here, where a lot of people, a lot of very creative people are always trying to think about something new that will create a lot of value of Enron.

But we have been successful. We are different. We're not an El Paso-ron, we're an Enron. And we're Enron because we do have much better people, much better talent working here. That's now being recognized in national surveys, one after another.

So, again, let me thank all of you worldwide that are watching this today and participating in it. Thank you for the tremendous effort you're putting out, the great success that you're achieving, hopefully, the fun that you're having, but we all appreciate it, and just keep up the good work.

Thank you very, very much.

[Applause.]

[Whereupon, the Enron All-Employee Meeting concluded.]